

The Treasury Note



A monthly newsletter
of municipal finance

February 1, 1996

Tax Reform Commission Releases Report

On January 17, the 14-member National Commission on Economic Growth and Tax Reform (the Tax Reform Commission) released its report to Congress. The California State Treasurer was appointed as a member of the commission. The Commission's first recommendation was to abolish the current tax code and replace it with a tax system that is simpler and fairer. The report contained a proposal for an income tax system based on a single low tax rate with a generous exemption from taxes for low income individuals. In addition, Tax Reform Commission members recommended: elimination of the bias against savings and investments; full deductibility of Social Security and Medicare payroll taxes; taxation of income only once and elimination of the capital gains tax, the estate tax, and the alternative minimum tax; immediate deduction of the full cost of new buildings and equipment, rather than using depreciation tables over a longer period; and requirement of a two-thirds vote of Congress to raise taxes.

The Commission believes that these changes will increase savings and investments, remove tax considerations from business and investment decisions, and increase the amount of dollars flowing into the capital markets.

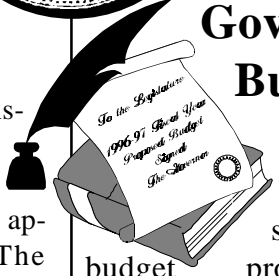
Although the report did not endorse a specific plan, the commissioners highlighted the importance of the mortgage interest deduction and the deduction for charitable contributions.

The next step in the tax reform movement probably will be in the form of continued debate in the 1996 Presidential Campaign and the beginning of a series of Congressional hearings. The Senate Finance Committee has already planned a hearing on the Commission's report on January 31, and the Treasurer will testify. For more information call (916) 653-3243.

Department of Finance Director Resigns

The Director of the State Department of Finance, Mr. Russell Gould, has resigned from his post. He will join a firm in the capital markets in March. The Governor has yet to announce a replacement as of this writing.

Governor's 1996-97 Budget Presented to the Legislature



On January 10th, the Governor submitted his 1996-97 Fiscal Year proposal to the State Legislature as required by the State Constitution. The proposal is based on California's improved economy. Employment will regain the pre-recession level in the first half of 1996. The State will end its 1995-96 fiscal year (after deficit retirement) with a fund balance of \$402 million. Personal income is projected to grow at close to 6% in 1997. The revenues and expenditures for the 1995-96 and 1996-97 Fiscal Years are projected to be \$45.6 and \$45.2 billion respectively. The State will end its 1996-97 Fiscal Year with a fund balance of \$731 million. Of this amount, \$404 million will be reserved for economic uncertainties. The budget proposal also revealed that the amount of the State's external cash flow borrowing would be no more than \$2 billion in 1995-96 and \$3.2 billion in 1996-97.

LAO's Reaction to Governor's Budget

After reviewing the Governor's proposed 1996-97 budget, the Legislative Analyst's Office (LAO) released a brief budget report on January 18. According to the LAO, the State's fiscal picture is significantly more positive than in recent years. The budget forecast for both the U.S. and California economies is generally similar to, but slightly more conservative than, the LAO's November economic projections. The Governor's major budget priorities are similar to those of last year. About \$2.6 billion in budget savings is dependent upon federal actions on health and welfare programs. The assumptions used in arriving at the \$2.6 billion savings this year are more reasonable than past years. The Governor again proposed a tax reduction to be phased in over a three-year period.

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Ask the State Treasurer

Q: *I want to buy some College Saver bonds for my children. Where do I go to get them?*

A: In the past, the State has issued a small number of bonds in zero coupon form. They were designed and marketed as "College Savers" because of their maturities - 8 to 18 years. Most of the investors tended to keep these bonds for saving purposes. As a result, they may not be available in the secondary market. We are currently evaluating whether it makes economic sense to sell these types of bonds at this time. We may issue these bonds again when the conditions are favorable.

Q: *Will I be receiving a 1099 notice and, if so, when should I expect to receive it?*

A: A Form 1099-B will be sent to all California bondholders who have redeemed their bonds in 1995. Also, a Form 1099-INT will be mailed to all California bondholders who received taxable interest payments in 1995. Both forms will be mailed by our office on or before January 31, 1996. Please call (916) 653-2884 if you have any questions regarding Form 1099-B and Form 1099-INT.

Listing of Redemptions

This listing reflects redemptions officially announced as of January 31, 1996. On March 1, 1996 the following bonds will be redeemed:

State Public Works Board, Energy Efficiency Revenue Bonds (State Pool Program), Series 1986A
All bonds will be redeemed.

If there are any questions regarding the purpose or timing of these calls, please call (916) 653-3451. For redemption payment or registration information, please call (916) 653-2884.

Newsletter Mailing List

Since interest checks are mailed every six months, you will receive The Treasury Note twice a year unless you hold other California State bonds with different interest payments dates. If you would like to be on the mailing list to receive The Treasury Note monthly, please send your name and address to the Investor

Relations Program at the address on the previous page.



STO is on the Internet!
You can locate the State Treasurer's Office on the California Home Page (<http://www.treasurer.ca.gov>).

Bond Sales Calendar*

If you are interested in purchasing any of these bonds, please contact your broker a couple of weeks before the sale date.

BOND SALES	AMOUNT in millions	SALE DATE
General Obligation Bonds (Refunding)	\$165	Spring 1996
State Public Works Board, California Community Colleges, Lease Purchase Revenue Bonds	\$240	Spring 1996
State Public Works Board, California State University, Lease Purchase Revenue Bonds	\$265	Spring 1996
State Public Works Board, Department of Corrections, Lease Purchase Revenue Bonds	\$590	Spring 1996
State Public Works Board, California Museum of Science and Industry, Lease Purchase Revenue Bonds	\$32	Spring 1996 or Summer
1995-96 Revenue Anticipation Notes (RANs)	\$2 billion or less	April 1996
1996-97 Revenue Anticipation Notes (RANs)	\$3.2 billion or less	July 1996

*Subject to change